14:International Bank S-5 (1956) 1955 MD1 Syria MD1

II BUDGETING AND ACCOUNTING

652
461

In common with many other underdeveloped countries, Syria's most urgently needed fiscal reform is improvement of budgeting and government accounting. There is no unified and comprehensive budget or financial plan. Complete and accurate information on receipts, expenditures and cash balances is not available. In many instances cumbersome procedures and excessive centralization appear to cause unnecessary delays and inefficiency.

Types of Budgets and Financial Relations

There are, in principle, three types of budget: (a) the ordinary government budget; (b) the annexed budgets; and (c) the budgets of the independent entities. In addition, an important group of operations consists of extrabudgetary advances from available funds of the Treasury and of advances by the Issue Department of the BSL with government guarantee. Still another arrangement was the extraordinary defense budget of 1949, which provided for certain receipts and expenditures in 1949 and later years.

These financial operations are not brought together in a comprehensive budget or set of accounts. The complexity of financial relations and lack of unified accounts are partial explanations of the incomplete knowledge of government finances to which reference was made in the previous section.

The ordinary budget includes the regular receipts and expenditures of the central government departments. No distinction is made between current and capital items. As submitted, this budget is always nominally in exact balance. Receipts, however, may include expected withdrawals from the reserve fund and expenditures may include expected additions to that fund. On at least one occasion in recent years anticipated proceeds of new borrowing from the Issue Department were included in budget receipts. In view of these practices the nominal balance of the ordinary budget is misleading.

The annexed budgets include those of the Syrian University; Arab Academy; Department of Antiquities; Syrian Broadcasting System; Posts, Telegraphs and Telephones; Tobacco Monopoly; and Customs Bureau.

14:International Bank S-5(1954)1955 MD1 Syria MD1

652 451 The general budget is supposed to include appropriations for these agencies or the amount contributed by them to the Treasury after deduction of their operating expenses. This practice, however, does not seem to have been rigidly followed. The PTT, for example, has secured large extrabudgetary advances from the Treasury and has apparently used its operating surplus to repay part of these advances. Neither the advances nor the repayments entered the regular budget. Customs receipts, less administrative expenses, are recorded in the regular budget, but the Customs Bureau does not turn over the money to the Treasury until requested to do so. At the end of 1953, reported bank balances of the bureau amounted to well over one year's collections. The semi-autonomous position of the customs administration, which exempts its operations from usual budgetary and civil service rules, is unusual. It apparently is a carryover from the period of customs union with Lebanon.

The financially independent agencies or entities include the Ghab project; Latakia port; Agricultural Bank; Cereals Office; Council on Money and Credit; Exchange Office; electricity corporations; Aleppo water supply; Northern Railway; Hedjaz Railway; and the municipalities. These entities retain any surplus they may realize and they charge any deficit against their capital accounts. Some of the independent agencies have received large sums in the form of advances from the Treasury or government-guaranteed advances from the Issue Department of the BSL. Neither type of advance is entered in the general budget. Government-guaranteed loans to and repayments from private industrial companies also occur without any entry being made in the general budget accounts.

Budget and Accounting Agencies and Procedures

The principal budget and accounting agencies are the Department of Budget and Financial Control, the Department of Financial Affairs, the Treasury Department—all three located in the Ministry of Finance—and the independent General Accounting (Comptroller's) Office.

The Department of Budget and Financial Control is responsible for the preparation and, to some extent, execution of the ordinary budget. Requests for appropriations for the financial year beginning January 1 are supposed to be submitted to the Budget Department by the ministries about September 1 of the preceding year. The budget is expected to be presented to Parliament during December and adopted by it before the end

14:International Bank S-5 (1954)1955 MD1 Syria MD1

of that month. In recent years, however, the budget process has often fallen behind this schedule. The Budget Department has an accountant in each agency who is supposed to preaudit expenditures. The financial control section is responsible for examination of proposed legislation with financial implications and for supervision of government personnel practices.

The Department of Financial Affairs is responsible for supervision of loans not itemized in the budget, including Treasury advances to government entities or government-guaranteed loans to industrial companies.

The Treasury Department handles actual receipts and disbursements. Expenditures and receipts which occur within three months after the end of the financial year to which they are attributable are recorded in the accounts of that year, the books being held open for that purpose.

The General Accounting Office has broad authority with respect to preaudit and postaudit of expenditures and personnel actions. The Office must approve in advance all contracts or purchases in excess of £S 5,000 and all contracts for rental of buildings extending beyond the current year. The examination concerns the legality of the action rather than its advisability. The Office must also give advance approval to hiring of government personnel to assure that there is budgetary provision for the position and that the candidate meets the legal requirements. It also approves increases in salaries and pensions. It is responsible for monthly and annual postaudits of accounts and for the closing of the budget. The annual budget is formally closed by an act of Parliament.

The General Accounting Office asserts that its preaudit functions have been kept up-to-date and that its procedures do not cause delay in making expenditures in conformity with the budget. A long delay is involved, however, in postaudit and final closing of the budget. The 1947 budget is the most recent one which has been formally closed. Accounts for 1948, 1949 and 1950-51 have been examined by the General Accounting Office but have not been passed on by Parliament. The mission was informed that the backlog of postaudit work was being reduced but that the General Accounting Office did not expect to be current in its postauditing until 1955.

The reserve fund is merely a bookkeeping device. The same budget may provide for additions to the reserve fund (recorded as budget expenditures) and for withdrawals from the fund (recorded as budget receipts). Although an increase in the reserve fund usually indicates a surplus in the ordinary budget, one substantial addition in recent years merely

14:International Bank S-5 (1954) 1955 MD1 Syria MD1

reflected a paper profit from the exchange advantage realized in liquidation of a debt to Lebanon for blocked Syrian currency formerly circulating in Lebanon. The fund therefore does not consist entirely of an accumulation of past surpluses. Even if this were true, drawing on the fund to cover a current deficit or an extrabudgetary expenditure would not represent a non-inflationary means of financing. An accounting system which relies on the reserve fund as a balancing item deprives the Parliament and the public of an easily understandable measure of current operations—the budget deficit or surplus—and may be somewhat misleading.

Criticisms

The most serious defect of these arrangements is the lack of a comprehensive budget covering all government receipts and expenditures. The ordinary budget gives an incomplete and misleading impression of the fiscal position of the government because it does not cover certain extraordinary defense expenditures and receipts and transfers of funds between the Treasury and independent agencies. Although it is appropriate for the independent agencies, especially those which are expected to be largely self-supporting, to have independent budgets, sound financial planning requires that the general budget clearly reflect the Treasury's relations with these agencies. The practice of authorizing advances from the available funds of the Treasury and from the Issue Department with Treasury guarantee for a diversity of projects which are not subject to unified review is unwise. Moreover, clear records of the status of outstanding authorizations for advances are lacking.

Provisions for preaudit of expenditures by the Budget Department and the General Accounting Office, together with the involved rules which individual agencies are expected to apply, result in a cumbersome procedure which places great stress on legal niceties but little emphasis on wise and economical use of resources.

Delay in accounting, postauditing and closing the budget means that no clear information on recent trends in receipts and expenditures is available to guide finance officials and the Parliament in preparing and approving the budget for a new year. Part of the difficulty arises out of the practice of attributing certain transactions occurring in the period January-March to the previous year. For purpose of control it is of course essential to match each disbursement with a valid authorization to spend, and it

14:International Bank S-5 (1954)1955 MD1 Syria MD1

must be expected that a large proportion of payments made during the first months of any year will be under authority granted in the previous year. On the other hand, the essential requirements for purposes of treasury management and economic analysis are data on current cash payments, receipts, and balances of the government; from this point of view an exact allocation of all transactions to particular budget years is of secondary importance. In drawing up a new budget, furthermore, information on the recent past is needed in order to check on the rate at which authorized expenditures are going forward. Figures on total cash receipts and expenditures for the government as a whole and for each ministry can be prepared within a few days after the end of any calendar period. Such figures would be a highly useful supplement to information now available.

Partly as a result of lack of current information on resources and claims on them, the Treasury and other government agencies appear to have built up grossly excessive cash balances. Complete records on these balances are not available from government accounts but banking statistics on public deposits reveal the large size of the balances. As of December 31, 1953, public deposits denominated in local currency were as follows:[7]

	(Million £S)
Treasury	62.0
Customs service	55.6
Public administrations	21.9
Public services	49.2
Miscellaneous	.2
Total	188.9

Treasury deposits plus deposits of the customs service, which are at the disposal of the Treasury even prior to being transferred to it, were equal to more than half a year's ordinary budget expenditures. Public deposits as a whole have increased sharply since the end of 1951. They were built up at a time when the government was borrowing, directly and indirectly, large amounts from the Issue Department of the BSL. It is not possible fully to evaluate the adequacy of the balances because of lack of information. Treasury deposits, for example, include an unknown amount of third-party funds which do not legally belong to the government. This situation, of course, complicates financial planning. The possibility of an

[7] From data compiled by the Exchange Office. In addition, there were £S 5.3 million of foreign-currency deposits.

14:International Bank S-5 (1954) 1955 MD1 Syria MD1

inflationary situation developing out of an attempt of various government agencies to draw down their deposits at a rapid rate should not be overlooked.

Suggested Reforms

Some of the main lines of reform of the budget and accounting system are implied in the foregoing observations, but for the sake of clarity they will be repeated. No attempt will be made to outline a detailed program; for this, it is suggested that the government obtain the services of a qualified foreign advisor. The mission recommends the following:

1. A comprehensive budget including all receipts and disbursements of the Treasury should be instituted. Items now financed through extraordinary accounts or by drawing on the available funds of the Treasury should be included in the general budget. Annexed budgets may be continued for agencies such as Posts, Telegraphs and Telephones, the broadcasting system, and the University, but all subventions and loans to these agencies and all contributions or repayments from them should be reflected in the general budget. Loans or capital subscriptions to the port, railway and electricity companies and other independent enterprises, as well as any recoveries of funds from these enterprises, should also be entered in the general budget.

2. The general budget may appropriately be divided into three sections. On the expenditure side these would be: (a) current expenditures; (b) capital outlays; (c) loans and capital subscriptions. On the receipts side the three sections would be: (a) current revenues; (b) proceeds of sales of state property; (c) recoveries of loans and capital subscriptions. Such a classification would be helpful for purposes of economic and financial planning but it should not be assumed that expenditure items of types (b) and (c) should always be financed by borrowing, or type (a) items always by current revenues.

3. Although the independent public administrations and services should remain outside the general budget and should not be required to comply with the detailed budget procedures applicable to regular departments and agencies, each independent agency should be required to submit annually a statement of proposed capital outlays. The proposals should be subject to review by a competent body to assure their consistency with the general economic program of the government in the light of current conditions.

14:International Bank S-5(1954)1955 LID1 Syria MD1

Capital outlays of municipalities might be subjected to the same kind of examination. 452 451

4. Projects extending over several years should be authorized in advance by law but funds for the whole project should not be transferred to a separate account or otherwise set aside when the project is authorized. Instead, appropriations should be made annually to cover expected disbursements of that year and funds should be released by the Treasury only as needed to make payments to employees and contractors. Appropriations remaining unobligated at the end of any year should lapse. This system would permit the government to exercise continuous control over spending. The Treasury would borrow, under a general authorization, only when necessary to make payments, and an increase in the public debt would be avoided while cash balances were available.

5. The so-called reserve seems to serve no useful purpose and it does complicate and confuse budgeting. It should be eliminated.

6. Two types of accounting records should be maintained. First, for purposes of control, a continuous record should be kept to show at all times the unobligated balance of each outstanding appropriation and the cumulative disbursements made under authority of the appropriation. These accounts would serve as the basis for auditing and closing each budget. Second, accounts showing cash receipts, payments and balances should be maintained. Prompt reports should be prepared from these accounts at monthly intervals; these would supply essential information for improving treasury management and budgeting.

7. Each budget should include (a) estimates of receipts and expenditures for the year under consideration; (b) revised estimates for the year in progress; and (c) actual figures for the preceding year. The budget should also present information on the amount of new spending authority requested, on cash balances, the public debt and other relevant items. It should clearly indicate the proposed means of financing any deficit or the disposition of any surplus.

8. Preaudit of expenditures by the General Accounting Office should be discontinued and this function assumed by the various operating agencies under the general supervision of the Ministry of Finance. Preaudit is an administrative control essential to internal management. Postaudit is concerned solely with verification of the legality of past transactions; it enables the legislature to make sure that the executive agencies have not exceeded their authority. The combination in one agency of preaudit and

14:International Bank S-5 (1954) 1955 MD1 Syria MD1

652 451 postaudit functions is likely to lead to overcentralization, cumbersome procedures and operating delays.

9. The delay in postaudit should be reduced as fast as possible, by improving both accounting and auditing procedures, as well as by relieving the General Accounting Office of the preaudit function. Fraud and other crimes revealed by postaudit should be dealt with as provided by law but officials should no longer be held financially liable for procedural irregularities not involving fraud; in such cases attention should be directed to revising applicable procedures with the object of preventing a recurrence of the irregularities.

10. Cash balances of the Treasury and other agencies should be analyzed with a view to segregating public funds from third-party accounts. Excessive cash balances should be applied to reduction of the public debt.

651 III REVENUE SYSTEM

The most serious problems in the field of taxation arise from inefficient and inadequate administration and widespread evasion. The system is regressive and unequal in incidence. Although revenue has increased greatly in recent years—apparently more rapidly than national income—it will not be easy to assure a continuation of this trend. The system does not have a large degree of automatic flexibility of yield which would permit the government to capture a significant part of any increases in national income without changing tax rates.

Revenue Yield in Relation to Income and Population

The proportion of the national income collected in taxes and other government receipts appears to compare favorably with that in many other countries. In 1950 the ordinary budget receipts of the central government plus estimated receipts of all municipalities equalled 12% of estimated national income.[8] By 1953 central and municipal receipts appear to have

[8] In 1950 ordinary receipts of the central government were approximately £S 139 million (annualized estimate from 18-month fiscal period 1950-51). The total of municipal expenditure budgets in 1950 was £S 25.8 million, but the municipalities received Treasury-guaranteed advances of £S 4.8 million from the Issue Department of the BSL. This suggests that municipal budgets provided for approximately £S 21 million of financing from sources other than borrowing. It is not known whether municipalities added to or drew down reserve funds in 1950. The mission estimates the national income of Syria in 1950 at £S 1,380 million.